



Federal Home Loan Bank of Des Moines

MPF Conference Salt Lake City
March 2017



MPF Traditional

Credit risk sharing for additional profitability

| Agenda

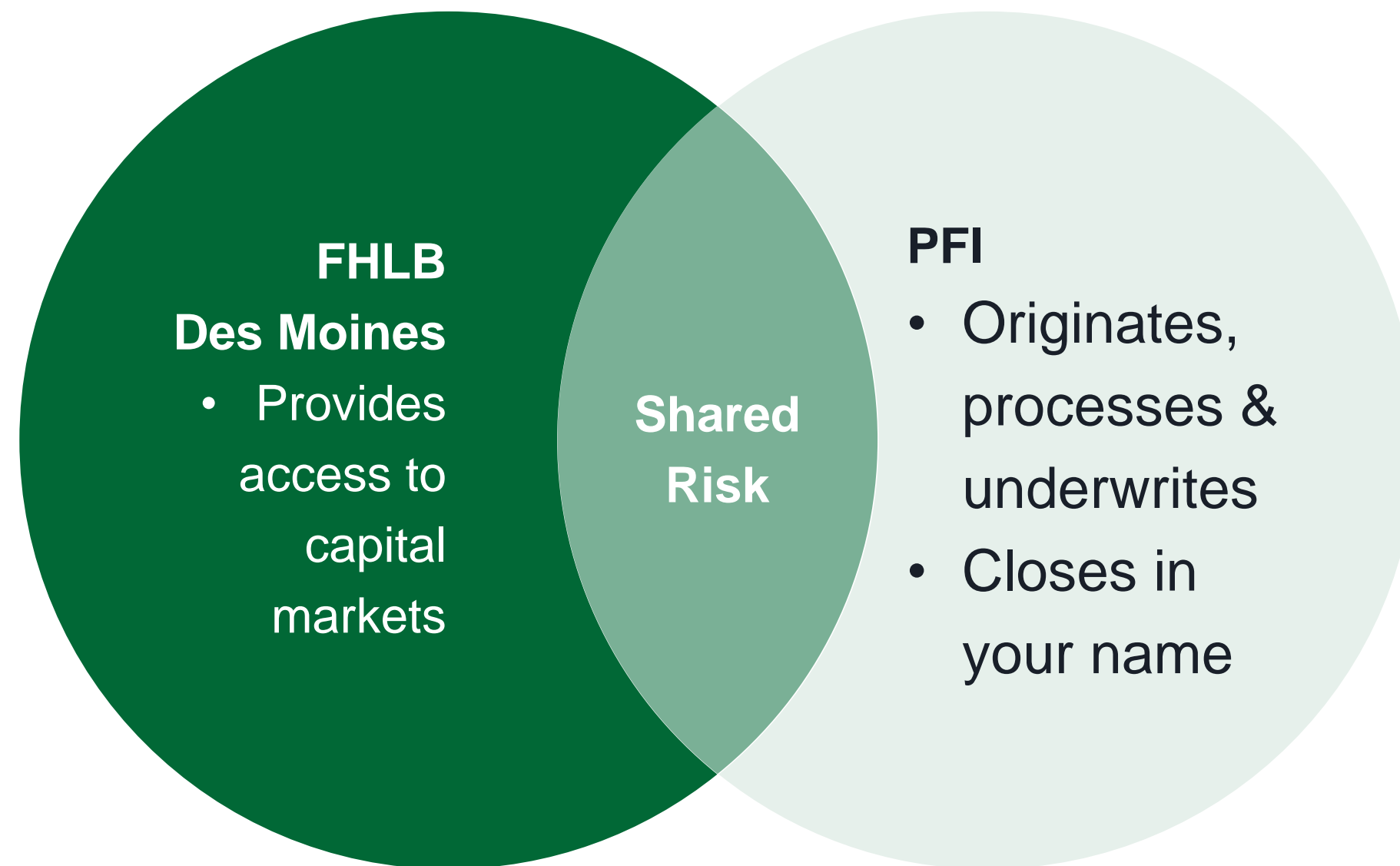
1. Traditional Product Review

2. Mandatory Locking Best Practices

3. Wilary Winn – Regulatory Reporting Guidance

MPF Traditional

Credit risk sharing for additional profitability



Investor: FHLB Des Moines

Loan Types:

- Conventional/Conforming
- 1-4 Unit Residential
- Owner-occupied primary/second homes
- Investment properties (coming soon)

Desktop Underwriter (DU)

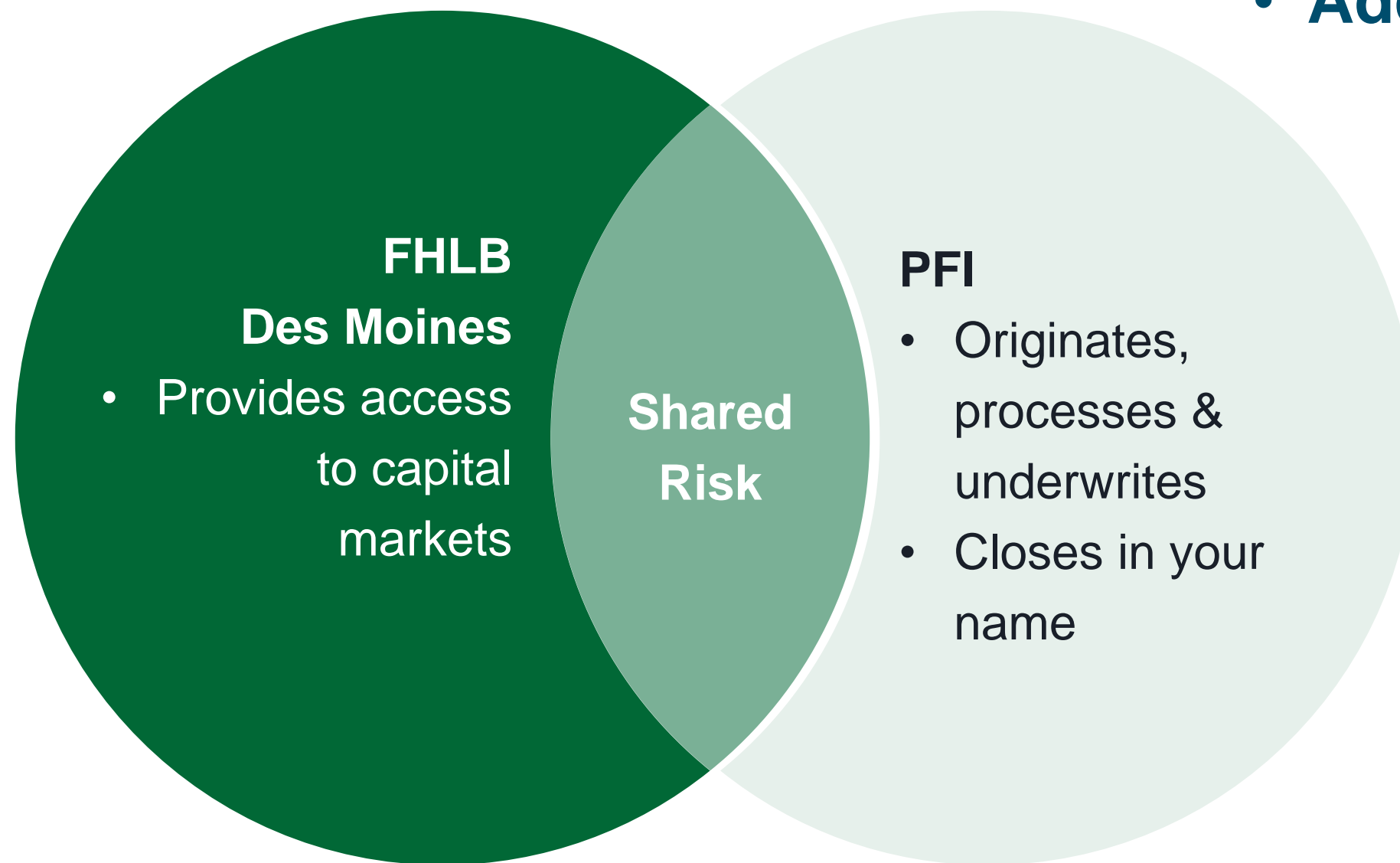
Maximum LTV: 95%

- *CLTV Exceptions Home\$Start DPA*

Minimum Credit Score: 620

MPF Traditional

Benefits



- **No Loan Level Price Adjustments**
- **Additional Fee Income Stream—Post Purchase**
 - “Credit Enhancement Fee”
 - Paid for assuming credit risk
 - 10 basis points annually calculated using outstanding loan balances
 - Paid monthly over the life of the loans on total unpaid balances

MPF Traditional

Pricing Examples

30 Year Purchase, Fico: 720 – 739, LTV 75.01 – 80.00%, Loan Amount \$200,000-Agency Risk Adjustment of 75bps

| 30 Day Lock – Effective date 03/20/2017 | | | |
|---|--------|--------|--------|
| Note Rate: | 4.00% | 4.125% | 4.25% |
| MPF Traditional | 100.68 | 101.35 | 101.99 |
| MPF Xtra (FNMA) | 99.67 | 100.45 | 101.09 |
| Difference | 101bps | 90bps | 90bps |

MPF Traditional

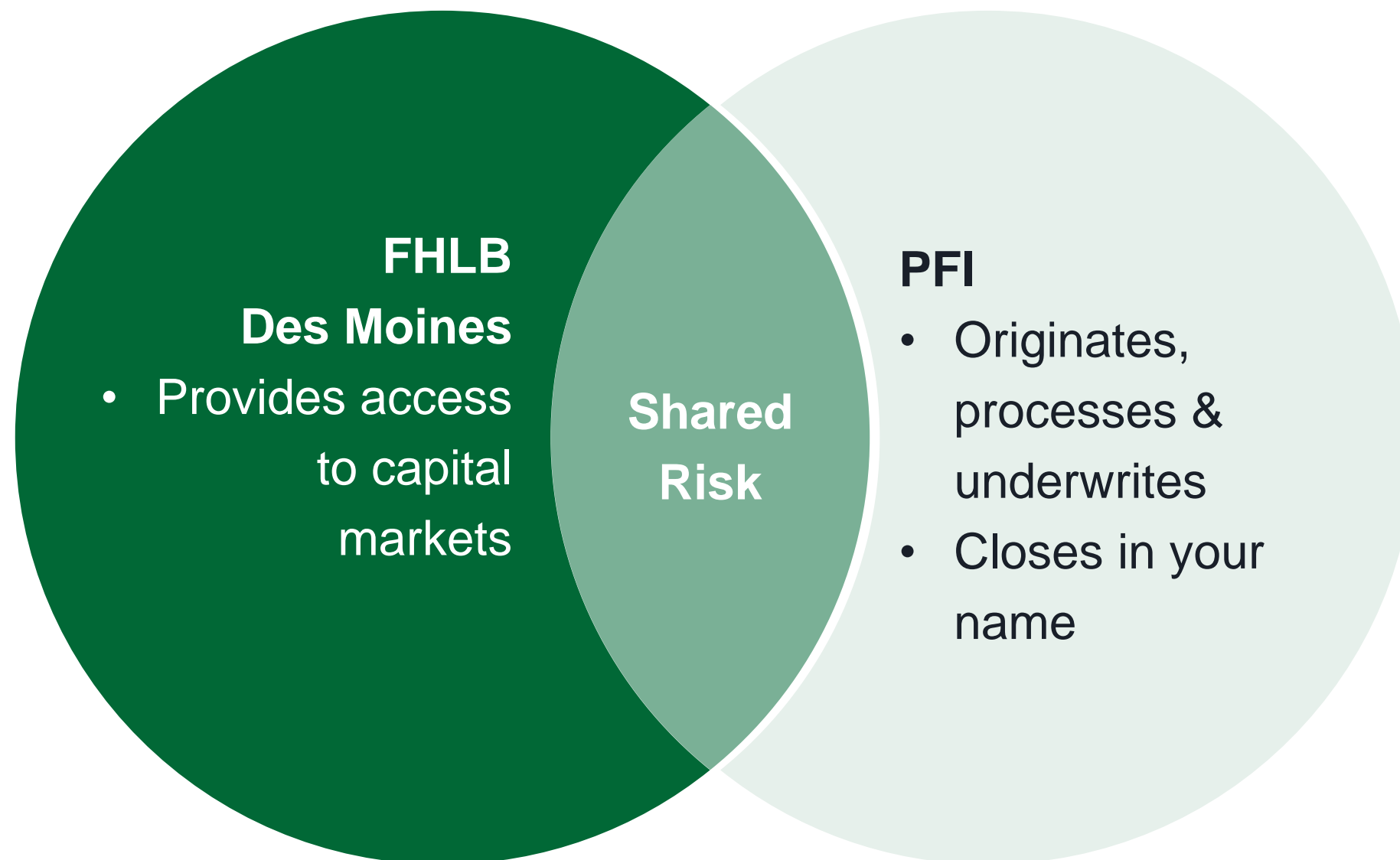
Pricing Examples

30 Year Cash out, Fico: 700 – 719, LTV 75.01 – 80.00%, Loan Amount \$200,000 – Agency Risk Adjustment of 237.5

| 30 Day Lock – Effective date 03/20/2017 | | | |
|---|--------|--------|--------|
| Note Rate: | 4.00% | 4.125% | 4.25% |
| MPF Traditional | 100.68 | 101.35 | 101.99 |
| MPF Xtra (FNMA) | 98.04 | 98.83 | 99.47 |
| Difference | 264bps | 252bps | 254bps |

MPF Traditional

Benefits



- **Activity Stock Dividend**
 - 4% Activity Stock Required
 - 3.5% dividend Last 19 quarters
- Service Retained / Service Released
- AUS U/W Allowed or Manual
- Fully Delegated Lending Authority
- Mandatory Locks Only

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Mandatory Lock Management Best Practices

Forward loan sales commitments are used to mitigate interest rate risk associated with borrower interest rate lock commitments. Mandatory commitments must ultimately be fulfilled (delivered loan(s) within acceptable tolerance range) or paired off (buy out the position at then-current market price).

Goal: Effectively manage production pipeline to realize maximum benefit associated with mandatory pricing.

Strategic Alternatives: Internally manage pipeline and hedges or outsource

- ✓ Create comprehensive pipeline report
- ✓ Identify an individual/team with overall pipeline responsibility and authority
 - Understand your pipeline fallout experience at key process milestones. Identify patterns.
- ✓ Address policy needs (e.g. Renegotiation, Relock, Borrower Extensions) to mitigate fallout expense
- ✓ Determine MPF lock strategy based on pipeline volume:
 - Allow coverage flexibility (movement of loans) through longer investor locks (e.g. Delivery Commitment expirations 10-15 days after borrower lock expiration)
 - If production volume allows, consider blanket MPF “coverage” (e.g. \$1 million DCs) vs. individual loan locks.
 - Keep MPF DC tolerances in mind!

MPF Traditional

Shared Risk and Shared Reward



MPF Traditional

What is Credit Enhancement Obligation

- Loan level CE Obligation is determined by S&P LEVELS model
- Loan credit enhanced to “AA” level (currently)
- Calculated at loan level and accumulated at the pool level
 - What is a Pool (aka Master Commitment)?
- Off balance sheet contingent liability (RBC may apply)

Pool Example

MPF 125 Loan Pool

| Funded | CE% | CE\$ | Funded | CE% | CE\$ | Funded | CE% | CE\$ |
|---------------|--------|-------------|---------------|-------|--------------|-----------------|----------|---------------|
| \$ 270,400.00 | 2.657 | \$ 7,183.79 | \$ 178,767.75 | 2.358 | \$ 4,215.57 | \$ 64,000.00 | 8.500 | \$ 5,440.00 |
| \$ 117,510.79 | 0.379 | \$ 445.30 | \$ 127,000.00 | 3.824 | \$ 4,856.10 | \$ 128,000.00 | 11.096 | \$ 14,203.42 |
| \$ 141,229.64 | 2.670 | \$ 3,770.26 | \$ 108,800.00 | 3.416 | \$ 3,716.14 | \$ 179,497.57 | 0.000 | \$ - |
| \$ 151,840.07 | 1.473 | \$ 2,236.91 | \$ 44,000.00 | 5.060 | \$ 2,226.23 | \$ 104,800.00 | 6.280 | \$ 6,581.43 |
| \$ 100,000.00 | 2.125 | \$ 2,125.29 | \$ 86,400.00 | 6.226 | \$ 5,378.95 | \$ 157,200.00 | 4.935 | \$ 7,757.23 |
| \$ 196,204.66 | 1.641 | \$ 3,219.54 | \$ 78,000.00 | 2.618 | \$ 2,042.15 | \$ 132,000.00 | 4.738 | \$ 6,253.65 |
| \$ 76,893.71 | 10.000 | \$ 7,689.37 | \$ 200,000.00 | 1.782 | \$ 3,563.06 | \$ 50,000.00 | 11.050 | \$ 5,525.00 |
| \$ 95,000.00 | 0.227 | \$ 215.26 | \$ 84,000.00 | 6.728 | \$ 5,651.36 | \$ 192,000.00 | 12.494 | \$ 23,988.04 |
| \$ 74,700.00 | 9.35 | \$ 6,984.45 | \$ 72,000.00 | 2.115 | \$ 1,523.12 | \$ 69,533.50 | 0.393 | \$ 273.30 |
| \$ 109,613.56 | 0.069 | \$ 758.09 | \$ 190,000.00 | 3.926 | \$ 7,458.84 | \$ 165,000.00 | 3.811 | \$ 6,287.73 |
| \$ 56,000.00 | 2.912 | \$ 1,630.75 | \$ 190,400.00 | 3.458 | \$ 6,584.28 | \$ 112,500.00 | 0.000 | \$ - |
| \$ 176,000.00 | 3.997 | \$ 7,035.13 | \$ 34,400.00 | 2.538 | \$ 872.90 | \$ 46,400.00 | 3.677 | \$ 1,706.30 |
| \$ 57,340.76 | 0.812 | \$ 465.67 | \$ 220,000.00 | 6.288 | \$ 13,832.61 | | | |
| \$ 45,000.00 | 0.000 | \$ - | \$ 256,000.00 | 1.892 | \$ 4,844.26 | \$ 4,938,432.01 | 3.938 | \$ 188,541.48 |
| | | | | | | | less FLA | \$ 49,384.32 |
| | | | | | | | | \$ 139,157.16 |



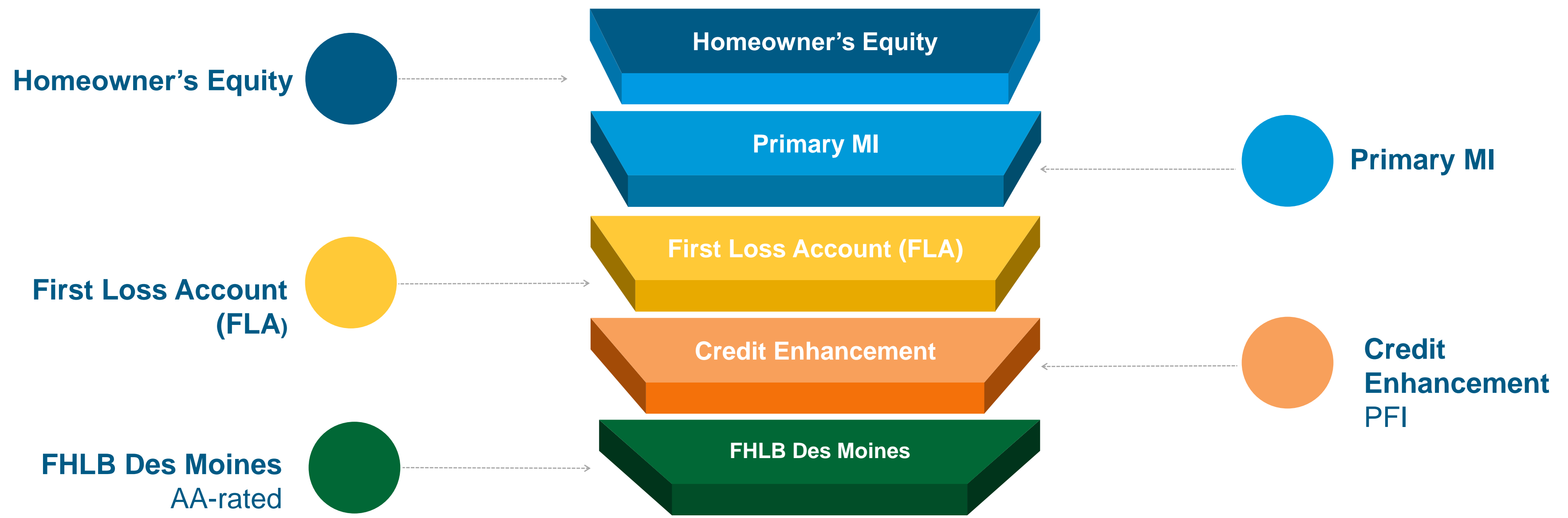
MPF Traditional

Original / 125 Comparison

| | Original | 125 |
|-------------------------------------|--------------------------------------|--------------------------------------|
| First Loss Account (FLA) | 4bps Accrues annually UPB | 100bps 1% of funded loans |
| Credit Enhancement Fee (bps) | 10 Guaranteed | 10 Performance Based |
| Servicing Fee (bps) | 25 | 25 |

MPF Traditional

Loss Absorption Progression



MPF Traditional – AA Rated

MPF 125 Loan Pool

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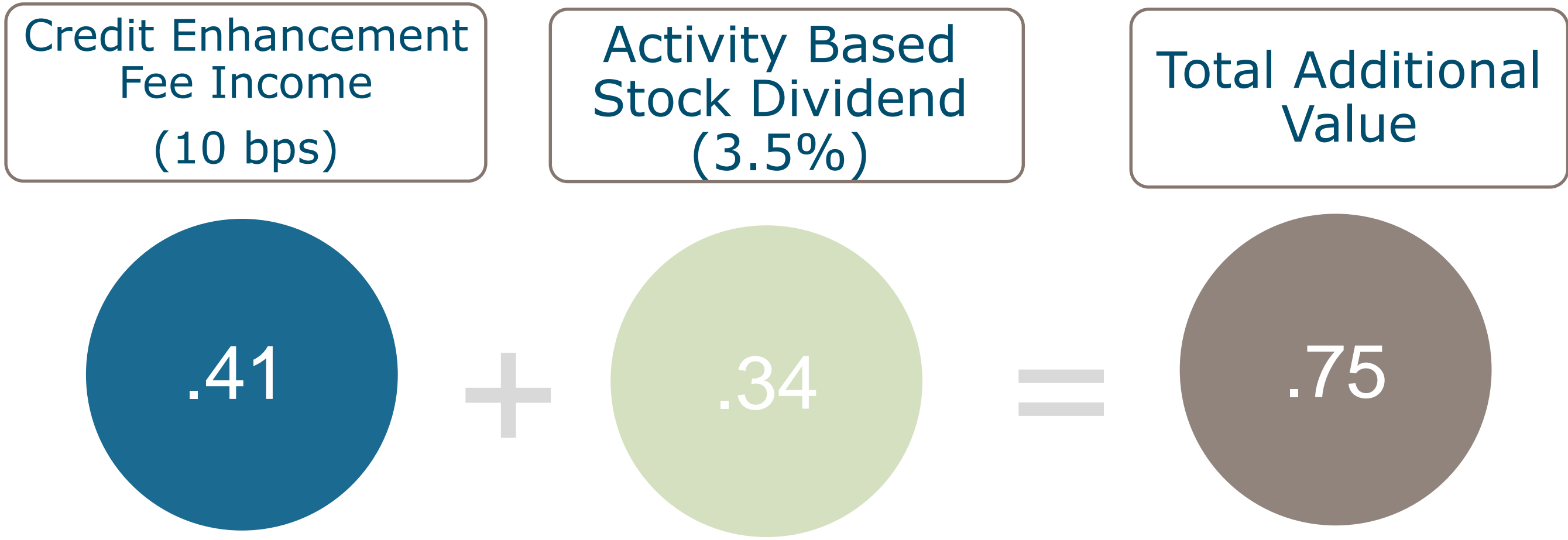
Credit risk sharing for additional profitability

Superior Loan Performance

- 90 day+ delinquencies 50% - 70% of MBA national average for conventional loans
- *Traditional MPF Program-wide foreclosure rates have historically ranged between 40% - 60% of the corresponding MBA national average for conventional loans.*
- Program wide MPF historical losses
 - 9 bps total

MPF Traditional

Additional Income Post Purchase



**CE Values are based on FX30 3.875% - Dividend value assumes an activity stock dividend of 3.5% - Both CE fees and Dividend values are evaluated using the 3/14/2017 EOD market*

MPF Traditional

Risk Based Capital Guidance

Wilary Winn LLC

Accounting information for the Traditional program regarding RBC

- <https://www.wilwinn.com/assets/documents/accounting-and-regulatory-reporting-for-mortgage-ser.pdf>
- <https://www.wilwinn.com/mpf-baseliii-ww-v3.pdf>



STAY IN TOUCH WITH US

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